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Capital master plan: business analysis on the possibility of constructing a new permanent building on the North Lawn

Report of the Secretary-General

Summary

In paragraph 7 of its resolution 60/256 of 8 May 2006, the General Assembly recalled paragraph 12 of the report of the Advisory Committee on Administrative and Budgetary Questions (A/60/7/Add.12) and requested the Secretary-General to present a more detailed business analysis on the possibility of constructing a new permanent building on the North Lawn by the second part of its resumed sixtieth session.

The present report is submitted in response to that request, and an initial analysis has been conducted which indicates a cost advantage in the long term. The Secretary-General recommends that the matter be considered independently from the renovation of the United Nations Headquarters buildings, given the urgency of that renovation.

A decision of the General Assembly on the implementation of the capital master plan and a strategy as set out in the report of the Secretary-General (A/60/550 and Corr.1 and 2 and Add.1) will be required. It should be noted that the Secretary-General has recommended the adoption of a phased approach (strategy IV).

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I. Introduction

1. In its resolution 60/256 of 8 May 2006, the General Assembly requested the Secretary-General to present a more detailed business analysis on the possibility of constructing a new permanent building on the North Lawn by the second part of its resumed sixtieth session.

2. In preparing the business analysis, the assistance of an outside consultant experienced in the New York City real estate market was sought, along with that of the consulting firm retained by the capital master plan project as the programme manager.

3. The consultants were requested to estimate the costs of constructing a new permanent building on the North Lawn based on two scenarios in terms of date of occupancy of the building:

(a) Estimated occupancy date of 2015, that is, completion of a new permanent building in eight years based on a realistic assessment of the earliest possible date of occupancy, assuming timely approvals of the feasibility, planning, design and construction process;[1]

(b) Estimated occupancy date of 2023, which is the expiry date of the long-term lease agreements between the United Nations and the United Nations Development Corporation (UNDC) for the UNDC-1 and UNDC-2 buildings.

4. The consultants were also requested to identify savings that would arise in terms of rent that would not have to be paid for the UNDC buildings or other commercially leased office space occupied by the United Nations system.

II. Assumptions used in the business analysis

5. The following assumptions were used in the preparation of the business analysis:

(a) The proposed new permanent building on the North Lawn is regarded as part of the long-term direction of the United Nations system in New York and is not being considered for temporary occupancy by Secretariat staff during the capital master plan renovation (i.e., as a swing space building);[2]

(b) The proposed building on the North Lawn is assumed to be a 900,000 "rentable" square foot, standard office building. No provision has been made for any additional requirements for the United Nations, which could be identified in a more comprehensive feasibility study;

(c) To determine the savings in rent, the following assumptions were made regarding lease renewal rates after the expiration of the current leases:

[1] It is assumed that the renovation of the United Nations Headquarters buildings would have no impact on this business analysis.

[2] The cost of potential delay to the start of the renovation of the Secretariat building has not been included in the analysis. That is, this assumption differs from strategy III in A/60/550, whereby a permanent building would be constructed before renovation of the Secretariat building.

(i) For UNDC-1 and UNDC-2: a market base rent of $77 per square foot effective on 1 April 2023[3] is assumed, with a 10 per cent increase every five years thereafter;

(ii) For the FF building,[4] a base rent of $45 per square foot in 2006 is assumed, with a 3 per cent increase per year until the expiration of the lease of each respective floor, and a 10 per cent rent step-up every five years thereafter;

(d) It has been assumed that the overall cost of the project to construct a building on the North Lawn would be met by assessments on Member States at the time of construction. Therefore, no allowance has been made in the analysis in terms of either short-term financing for construction or long-term financing for the building.

III. Business analysis

6. The following estimated total project cost of constructing a permanent office building on the North Lawn is based on the projected occupancy date (includes all costs related to construction, contingencies, professional fees, management and escalation):

2015	$626.8 million
2023	$939.0 million

7. Table 1 shows the leased space occupied by the United Nations system in New York as at May 2006.

Table 1
Leased space of the United Nations system in New York

Location	*Organization*	*Gross square feet*
UNDC-1	UN, UNDP	339 143
UNDC-2	UN, UNDP	331 179
UNDC-3	UNICEF	180 000
FF Building	UN, UNDP	319 024
Nigeria House	UNDP	6 856
Alcoa Building	UN	30 845
JFK cargo space	UN	200
Falchi ARMS Warehouse, Long Island City	UN	29 563
Uganda House	UN, UNDP, UNJSPF	25 529
1 Dag Hammarskjöld Plaza	UNJSPF	72 516
Daily News Building	UN, UNFPA	116 194
825 Third Ave.	UN	10 366
633 Third Ave.	UNICEF	115 459

[3] 2023 is the year that the current favourable rent levels expire.
[4] The FF building is located at 304 East 45th Street.

Location	*Organization*	*Gross square feet*[a]
820 Second Ave.	UNFPA	10 600
Chrysler Building[b]	UNOPS	80 000
Total		**1 667 474**

[a] Leased space includes office and non-office space, such as archive and warehouse storage space.

[b] UNOPS will vacate the Chrysler Building by the end of 2006 and the office space will be subleased to a non-United Nations entity.

8. Of that total leased space, the office space that could be accommodated in the new permanent building would be 900,000 square feet. Table 2 shows the space occupied by the various parts of the United Nations system in the UNDC-1, UNDC-2 and FF buildings proposed to be accommodated in the new permanent building and forms the basis of the lease-avoidance calculation.

Table 2
Current leased space to be accommodated in the new building
(In rentable square feet)

UNDC-1	339 143
UNDC-2	320 999
FF building	239 858
Total	**900 000**

9. Based on the assumptions for future rental costs detailed in paragraph 5 (c) above, the projected lease cost for the UNDC-1, UNDC-2 and FF buildings that would be avoided is set out below.

A. Total occupancy cost comparisons

10. The business analysis covers the 30-year period from 2015 to 2045. Table 3 shows a comparative summary of the total occupancy costs for the business analysis period for three possible scenarios on a nominal and net present value basis. It should be noted that although scenario 3 takes full advantage of the existing low-cost leases in UNDC-1 and UNDC-2, it becomes more expensive than scenario 2 when the projected cost escalation of the new building, due to the later construction start date, is taken into account.

Table 3
Comparison of total occupancy costs on a nominal and net present value basis (2015-2045)
(Millions of United States dollars)

	Nominal	*Net present value*
Scenario 1: status quo — continue leasing space in the UNDC-1, UNDC-2 and FF buildings	2 375	1 060
Scenario 2: build/consolidate into the new building on the North Lawn in 2015[a]	1 060	830
Scenario 3: build/consolidate into the new building on the North Lawn in 2023[b]	1 630	1 040

[a] Includes project cost for the new building on the North Lawn, as well as operating cost for the new building from 2015 to 2045.
[b] Includes base rent and operating costs for UNDC-1, UNDC-2 and FF buildings from 2015 to 2023; project cost for the new building, which is assumed to be available for occupancy in 2023; and operating cost for the new building from 2023 to 2045.

11. The break-even point, or the number of years required from occupancy to the point where the savings from avoided lease costs equal the cost of constructing the building, was also analysed and detailed in tables 4 and 5. The graphic analysis is shown in annexes I and II to the present report.

B. Occupancy in 2015

12. As the existing leases for UNDC-1 and UNDC-2 expire in 2023, the least-cost calculation is separated into two parts: (a) the lease costs avoided during the period from 2015 to 2023 and (b) the lease costs avoided after 2023.

13. The total projected avoided lease cost for the period from 2015 to 2023 is $255 million, calculated as follows:

(Millions of United States dollars)

Total lease cost for UNDC-1, UNDC-2 and FF buildings, including operating cost	336
Less total projected operating cost of new building on the North Lawn	81
Total projected avoided lease cost (2015-2023)	**255**

14. The projected average annual avoided lease cost for the period from 2023 to 2029 is $60 million, calculated as follows:

(Millions of United States dollars)

Projected average annual lease cost for UNDC-1, UNDC-2 and FF buildings, including operating cost	73
Less projected average annual operating cost of new building on the North Lawn	13
Projected average annual avoided lease cost (2023-2029)	**60**

15. Table 4 shows the business case for construction of a new building on the North Lawn with an occupancy date of 2015, on both a nominal and a net present value basis.

Table 4
Break-even analysis, assuming an occupancy date of 2015

Total cost of new building	$627 million
Area	900 000 square feet
Project cost per square foot	$696.47
Total projected avoided lease costs, 2015-2023 (8 years)	$255 million
Balance of capital costs (representing the difference between the cost of the new building and the avoided lease costs from 2015 to 2023)	$372 million
Projected average annual avoided lease cost, 2023-2029	$60 million
Number of years to recover the balance of capital costs	6.2 years
Break-even period — nominal basis (8 years + 6.2 years)	14.2 years
Break-even period — net present value basis, assuming 5 per cent discount rate	21.1 years

C. Occupancy in 2023

16. The projected average annual avoided lease cost for the period from 2023 to 2037 is $67 million, calculated as follows:

(Millions of United States dollars)

Projected average annual lease cost for UNDC-1, UNDC-2 and FF buildings, including operating cost	81
Less projected average annual operating cost of new building on the North Lawn	14
Projected average annual avoided lease cost (2023-2037)	**67**

17. Table 5 shows the business case for construction of a new building on the North Lawn with an occupancy date of 2023 on both a nominal and a net present value basis.

Table 5
Break-even analysis, assuming an occupancy date of 2023

Total cost of new building	$939 million
Area	900 000 square feet
Project cost per square foot	$1 043.28
Projected average annual avoided lease costs, 2023-2037	$67 million
Number of years to break even	14.0 years
Break-even period — nominal basis	14.0 years
Break-even period — net present value basis, assuming 5 per cent discount rate	21.3 years

IV. Other factors to be considered

18. The request by the General Assembly in its resolution 60/256 was for a detailed business analysis to be carried out on the possibility of constructing a new permanent building on the North Lawn. However, it should be noted that there are a number of other factors that should be considered in a more comprehensive feasibility study that have not been included in the present business analysis. These factors include:

(a) **Security**. No consideration has been given to the security advantages or disadvantages and implications that could arise from the construction of a 900,000-square-foot consolidation building on the North Lawn;

(b) **Architectural issues**. The addition of a 900,000-square-foot architectural element on the North Lawn would raise a number of significant issues related to the historical and architectural preservation of the United Nations complex. These factors would need to be considered in any comprehensive feasibility study required of the proposed construction of a building on the North Lawn;

(c) **Host City and community issues**. An official dialogue has not been entered into with the City of New York and the local community on the proposed building on the North Lawn.

V. Conclusions

19. The analysis on the potential benefits of a proposed permanent building on the North Lawn indicates that there would be commercial advantages for the United Nations derived from constructing and owning a building as compared to long-term leasing based on the assumptions contained in paragraph 5.

20. However, the analysis, as requested by the General Assembly, is limited to reviewing the economic aspects of the proposed building on the North Lawn. It does

not take account the factors listed in paragraph 18. Should the Assembly decide to proceed with a comprehensive feasibility study of the proposed construction of a building on the North Lawn, the cost of such a study is estimated at 1 per cent of the cost of construction and would require a period of at least one year to complete.

21. In order not to exacerbate the further deterioration of the Headquarters buildings, it is considered that any decision by the General Assembly to proceed with a comprehensive feasibility study should be made independently of the decision regarding the strategy on the capital master plan.

VI. Actions to be taken by the General Assembly

22. **The Secretary-General recommends that the General Assembly:**

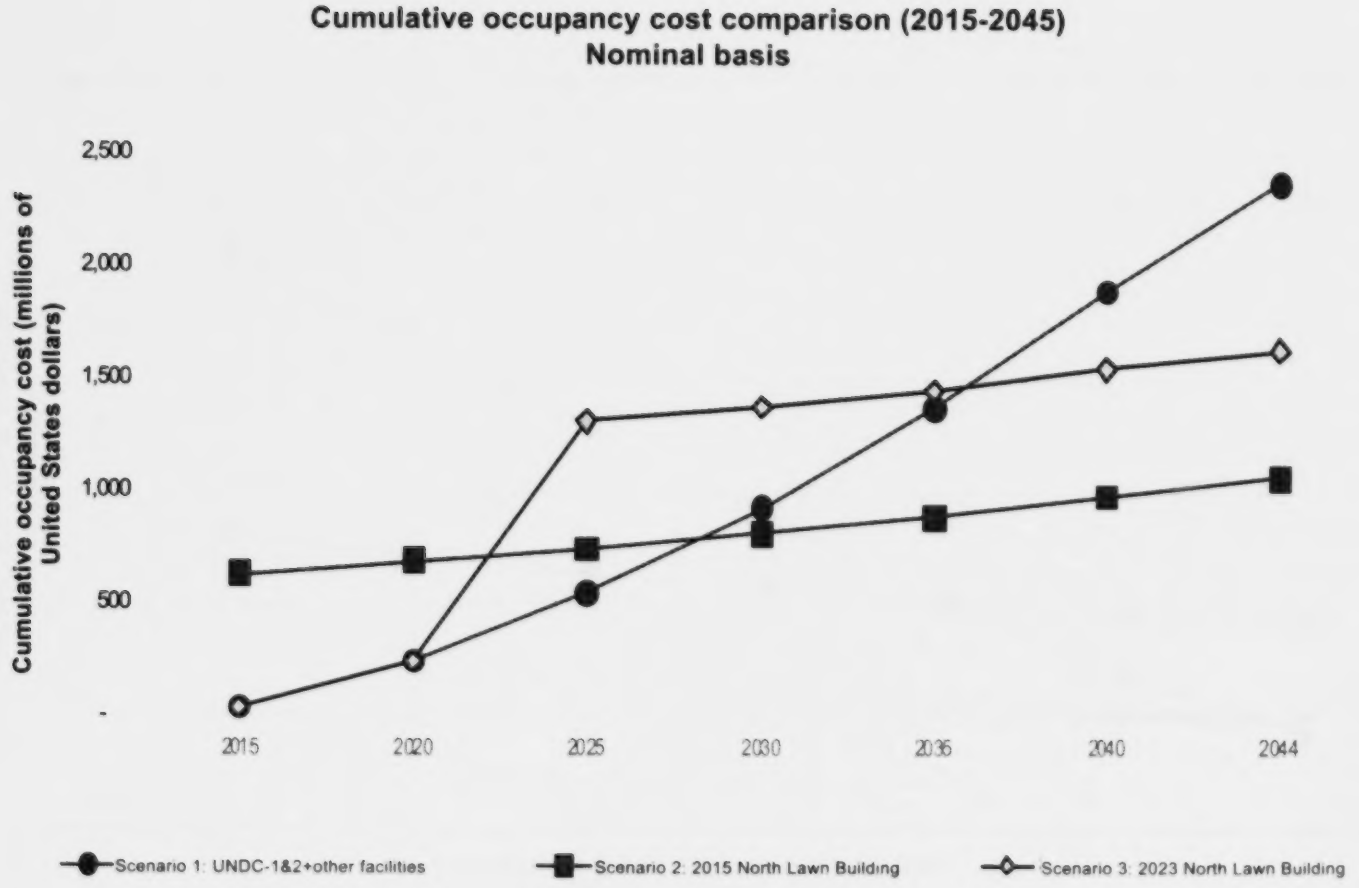
(a) **Take note of the report of the Secretary-General on the business analysis on the possibility of constructing a new permanent building on the North Lawn;**

(b) **Decide to continue with the capital master plan for the Headquarters buildings;**

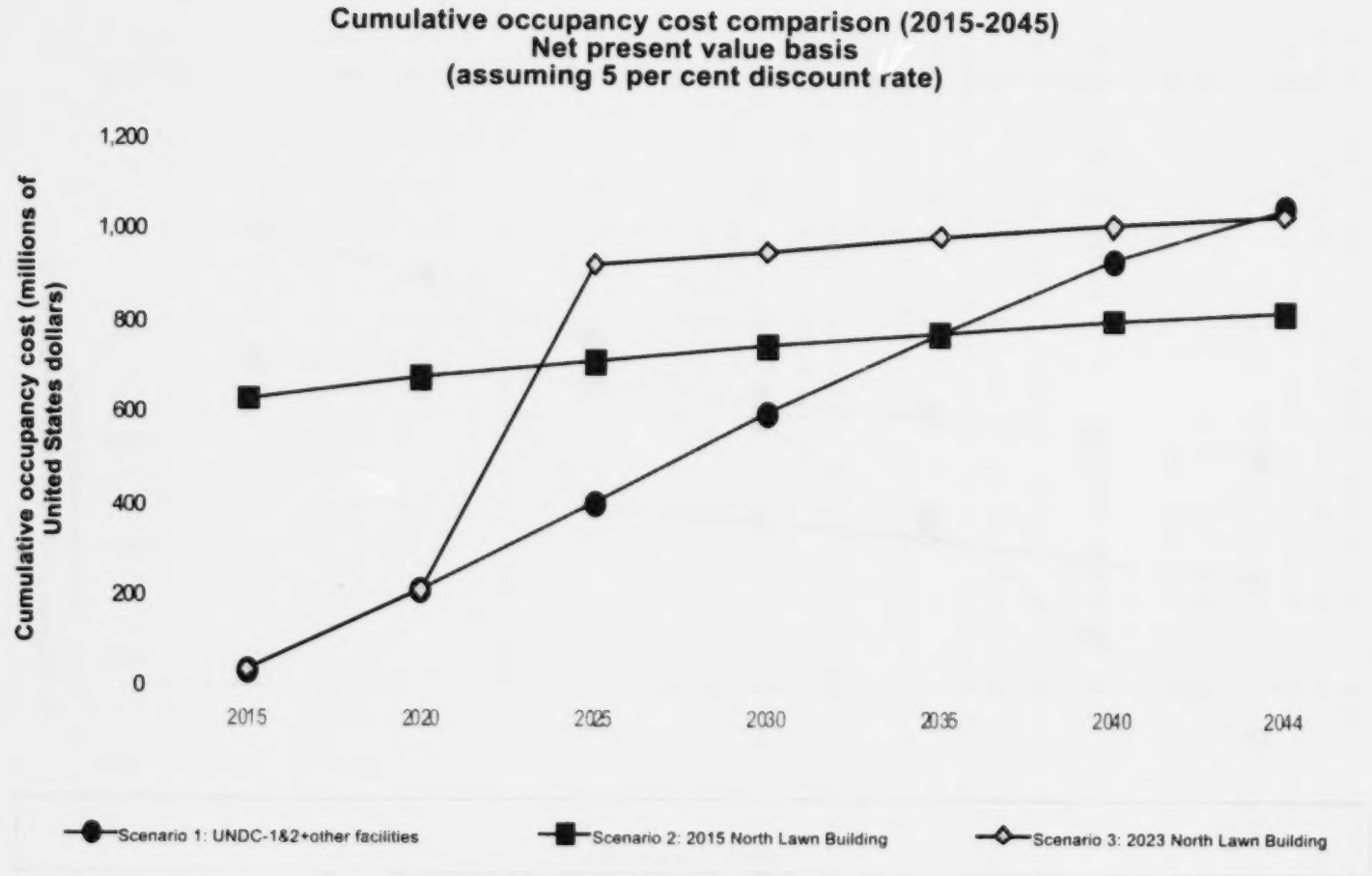
(c) **Approve the recommended strategy for implementation of the capital master plan (strategy IV: phased approach);**

(d) **Decide to revert to the consideration for the need of the comprehensive feasibility study at its sixty-first session and request the Secretary-General to report to it on the proposed terms of reference for such a study.**

Annex I


Cumulative occupancy cost comparison (2015-2045)
Nominal basis
Cumulative occupancy cost (millions of United States dollars)
2,500
2,000
1,500
1,000
500
-
2015
2020
2025
2030
2035
2040
2044
Scenario 1: UNDC-1&2+other facilities
Scenario 2: 2015 North Lawn Building
Scenario 3: 2023 North Lawn Building

Annex II


Cumulative occupancy cost comparison (2015-2045)
Net present value basis
(assuming 5 per cent discount rate)
Cumulative occupancy cost (millions of United States dollars)
1,200
1,000
800
600
400
200
0
2015
2020
2025
2030
2035
2040
2044
Scenario 1: UNDC-1&2+other facilities
Scenario 2: 2015 North Lawn Building
Scenario 3: 2023 North Lawn Building